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SUBJECT: Vice Premier Li Keqiang Visit Underscores New Zealand's
Bilateral Relationship with China

CLASSIFIED BY: Robert Clarke, CDA, Department of State; REASON:
1.4(B), (D)

¶1. (C) SUMMARY: During a November 27 meeting with ChargC), Political and Economic Chief and Econoff, New Zealand Ministry of Foreign Affairs China Desk Director Grahame Morton gave a read-out of Chinese Vice Premier Li Keqiang's November 1-3 visit to New Zealand. Morton said Li's initial visit to the region had been put on hold after it became entangled in tensions between China and Australia over the alleged Rio Tinto espionage case. The main focus of the visit was economic, with discussions about currency, trading and investment. Morton also reported that Li was "forward leaning" on New Zealand's Global Alliance proposal that aims to reduce agriculture related greenhouse gases through joint cooperation on research. During the visit, China and New Zealand signed four agreements on education, temporary workers, dairy product certification, and offal standards. Regarding Tibet issues, New Zealand's Prime Minister Key confirmed he will not meet with the Dalai Lama during his December 4-7 visit to Auckland, but New Zealand officials did press Li on Tibet and encouraged dialogue between the two sides. END SUMMARY.

Visit Comes as a Surprise to New Zealand

¶2. (C) Li's visit was originally scheduled for September but was postponed because it was scheduled in coordination with a trip to Australia, which, according to Morton, was delayed as China and Australia hammered out their differences over the alleged Rio Tinto espionage case. New Zealand assumed the entire trip was called off because the Dalai Lama is set to visit New Zealand in December, but they were "surprised" when they were given only a week's notice for the very "unusual" visit. Morton said that close to all of China's top Politburo members have visited New Zealand -- usually in conjunction with a visit to Australia, but this was Li's first visit to the country. He came with a large delegation of 43, including 6 ministers or vice ministers, and a press contingent.

He arrived at his first stop in Christchurch in a Boeing 747 and prepositioned a Boeing 737 to make the flight to Wellington. (Note: Wellington International Airport is not equipped to handle 747's. End note.) Given the short notice, New Zealand had the option of saying "no", according to Morton, but didn't because "Li is one of those in line for the top position." Morton said they were lucky they could muster the right New Zealand ministers to meet Li on such short notice, but the press coverage was poor because many key journalists were travelling with Prime Minister Key at the time.

13. (C) Morton said that one of New Zealand's objectives was to "show the seriousness with which they viewed Li's visit to their country," and the GNZ pulled out all the stops to make it a quality visit. Li was officially hosted by Deputy Prime Minister Bill English, who also serves as Minister of Finance. English chaired a roundtable for Li that was attended by seven other key New Zealand ministers, including Foreign Minister McCully, Attorney-General Chris Finlayson, and the Minister for Defense and Research, Science and Technology, Dr. Wayne Mapp, among others. Prime Minister John Key was also able to return from his trip to Asia in time to have a meeting and host Li for a dinner. While in Christchurch, Li visited the University of Canterbury, Christchurch, where he attended the founding ceremony of the Confucius Institute and delivered a speech. He also met the Mayor of Christchurch Bob Parker. Morton added that Li and the rest of the delegation left very pleased with the caliber of the visit.

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Main Focus on Trade and Economics

14. (C) Morton said the main focus of discussions with China were economic in nature, and Li's foremost message during the trip was that China's stimulus package had been sufficient to combat the slide in its economy following the 2008 global financial crisis. Deputy PM English underscored how important China is to New Zealand's economy and raised the issue of international currency. English relayed to Li that 65 percent of New Zealand's international trade is denominated in U.S. dollars, and any move by China to devalue its currency against the U.S. dollar has a profoundly negative impact on New Zealand exports. Li replied that China's currency needs to remain stable "to shore up demand," according to Morton. In the end, the two sides agreed to continue the dialogue on the currency issue. Morton noted that China is New Zealand's third largest trading partner, following close on the heels of the United States, which is New Zealand's second largest trading partner. Morton expected that China could soon overtake the United States to become New Zealand's second largest partner. Bilateral trade growth has been brisk following the signing of the April 2008 free trade agreement (FTA) said Morton. China's Ambassador to New Zealand claims China is already New Zealand's second largest trading partner; however, Morton attributed the discrepancy to how the two countries factor in trade with Hong Kong. Morton noted that New Zealand's trade to Mainland China will also be boosted by the FTA concluded on November 11 between New Zealand and Hong Kong. (Note: Hong Kong is New Zealand's eleventh largest export market and a significant source of investment. End note.)

15. (C) According to Morton, New Zealand's exports to China have jumped following the signing of the FTA. One of the biggest winners is the New Zealand dairy industry, which has "benefited greatly" because of safety concerns in China following the 2008 tainted milk scandal. He added that PM Key's visit to China in April 2009 helped smooth over tensions between NZ milk giant Fonterra and Chinese officials. New Zealand now has several projects in China to help companies build better food safety chains, with a particular focus on the dairy industry. Morton said

the objective is to help Chinese companies build lines that are more suitable for export. Currently New Zealand does not allow Chinese dairy products to enter the country for sanitary/phytosanitary (SPS) reasons. We do not want to "just say no", but we eventually want to be able to bring them up to standards "so we can say yes to the Chinese on dairy." Morton said New Zealand is also working with China to boost Chinese agriculture production. Fonterra, for example, has invested in Chinese dairy farms and other agriculture producers and introduced the latest technology and farming techniques. Although New Zealand's overall investment in Chinese agriculture is not huge, it has done reasonably well according to Morton. On investment, Morton said that in proportion to the increase in trade between the two countries, the increase in investment has been quite low. "We are open to investment in both directions," but we are not the focus of large Chinese investment similar to Australia, said Morton. And, New Zealand does not have the same sensitivities to certain assets, with the exception of land, as Australia. Morton believed, however, that as relations strengthened between the two countries and as New Zealand companies become more accustomed to doing business in China, they would boost investment there.

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Li "Forward Leaning" on New Zealand's Global Alliance Proposal on Greenhouse Gas.

16. (C) In addition to economic issues, Li discussed climate change and the run-up to the summit in Copenhagen in the roundtable with New Zealand ministers. According to Morton, Li had a more "forward leaning" stance on New Zealand's Global Alliance proposition. (Note: New Zealand has been pushing for a Global Alliance to research how to cut world-wide emissions from agriculture. The country sees itself in a unique position as the only developed country with close to 50 percent of its greenhouse gases stemming from agriculture. New Zealand officials repeatedly emphasize their desire to play a key role in helping the world address the twin challenges of ensuring food security while reducing carbon emissions. End note.) Morton said New Zealand was "greatly appreciative" of Li's support for and interest in the Global Alliance. Morton attributed part of Li's interest to the fact that for the first time this year China began gathering statistics on agriculture emissions, and China is now the largest emitter of agriculture greenhouse gases in the world. Morton believes Li sees New Zealand as a country that can bring "value added" to reducing agriculture emissions inside China, noting that Li also underscored his interest in the Global Alliance when he met with the PM Key.

New Zealand and China Sign Four Agreements

17. (C) New Zealand took the opportunity of Li's visit to sign four agreements that had been under consideration for some time, according to Morton. The first was a memorandum of understanding on cooperation in education and training, with a focus on high level research. Morton noted that there are currently 20,000 Chinese students studying in New Zealand. This number was down from the peak in the mid-1990's when there were close to 50,000 Chinese students studying in the country. Many of the Chinese students at that time were studying in short-term English courses. Now, most of the Chinese students are in tertiary education and diverse fields of study. Morton noted that New Zealand is "more comfortable" with the current number of students. Even with the lower numbers, China still remains New Zealand's most significant source of foreign students. The second agreement addressed the issue of Chinese entering New Zealand for temporary employment, a provision that was made in the FTA that New Zealand signed with

China. Morton said the agreement was something that the Chinese insisted upon because it spelled out the guidance on how Chinese workers would be recruited. He said the Chinese were concerned that "middlemen recruiters" in China would take advantage of the program, and China did not want the program to become a liability for the country.

18. (C) The third agreement was a provision that would facilitate New Zealand's dairy products into China. New Zealand wants China to recognize its SPS testing measures and certification and is pushing for an eventual mutual recognition of each others' e-certification. The agreement was a step in that direction whereby both parties committed to observing each others' practices. The final agreement involved hygiene standards of New Zealand's offal exports to China. Morton said China has not been happy with

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New Zealand standards because they did not meet Chinese market requirements. However, New Zealand has pushed back because they do not want China "to confuse international safety standards with its own market requirements." The agreement sets out what the standards would be.

Dalai Lama's December Visit to New Zealand Discussed

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19. (C) Morton said that PM Key had earlier conversed with Premier Wen Jiabao concerning the Dalai Lama's December 4-7 visit to Auckland, saying that neither he nor any of his ministers would meet with the Dalai Lama. Morton said the Chinese "obviously registered" this. Morton added that the PM and made this decision without any consultation, but others in the Government are still obliged to respect it. However, Key has not said that other members of parliament cannot meet the Dalai Lama. Morton also noted that before Key became Prime Minister, he met the Dalai Lama on other occasions. However, "the quid pro quo" is that New Zealand continues to raise Tibet as an issue and encourages dialogue between the two sides, said Morton.

Bio Notes on Li Keqiang

110. (C) Morton, who attended events throughout Li's visit, made several comments regarding Li's style and character. Morton said that from his experience, Li was "quite engaging" and had a different style than many Chinese leaders. He likened Li to Western style politicians in that Li did not "retreat to rote statistics" but answered questions directly and with a certain frankness. Li did not speak English in formal settings but was "quite comfortable" speaking English in one-on-one side conversations. His English was not at a "high level, but it was sufficient to make himself understood." Morton said that it was apparent that Li had "command of his delegation," which included Chinese Ambassador to New Zealand Zhang Limin. However, Li was not overbearing and "commanding", but he sometimes made jokes about himself and was comfortable asking other people in his delegation to respond to questions and add points to the conversation. At one point, Li even asked the Chinese Minister of Agriculture Sun Zhengcai to make a presentation. Morton also said that Li showed a "populist" streak. Much to New Zealand authorities' surprise, Li stopped the motorcade on several occasions unannounced and got out to shake hands with onlookers.

Background on New Zealand/China Relations

¶11. (SBU) New Zealand and China celebrated 35 years of diplomatic relations on 22 December 2007. The bilateral relationship has grown to become one of New Zealand's most valuable and important. China is New Zealand's third-largest trading partner, and a major source of migrants, students and tourists, and New Zealand views

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China as an important bilateral, regional and multilateral partner. The relationship between the two countries is characterized by regular high-level contacts, and an expanding range of official dialogues - both formal and informal. During Premier Wen Jiabao's April 2006 visit to New Zealand, an agreement to hold annual leaders' meetings was reached, and two of these have since taken place - the first at the second East Asia Summit in Cebu, Philippines at the beginning of 2007 and the second during Deputy Prime Minister Dr. Cullen's September 2007 visit to China. This was followed by the visit of Prime Minister Helen Clark to witness signature of the Free Trade Agreement in April 2008. (Helen Clark made four visits to China during her time in office.) Prime Minister John Key visited China in April 2009 - his first bilateral visit to Asia. A range of New Zealand ministers have made visits to China over the past few years, including those with responsibility for information and technology, food safety and police, defense, health, education, finance, and research, science and technology.

¶12. (SBU) From the Chinese side, President Hu Jintao made a State visit to New Zealand in October 2003, and Vice Premier Zeng Peiyan visited New Zealand in March 2007. Premier Wen Jiabao visited in April 2006, and the Chairman of the National People's Congress Wu Bangguo visited in May 2005. Bilateral communication between New Zealand and Chinese officials has also expanded over the years. Foreign policy, economic and trade talks are held regularly. There are formal bilateral dialogues on SPS issues, agriculture, dairy and forestry as well as regular contact on a wide range of other issues. Developments in Tibet in March 2008 put the focus on human rights issues for New Zealand, prompting several Government statements of concern and a motion by the New Zealand Parliament. New Zealand is careful to abide by its joint communiqué of 1972 to refrain from official dealings with Taiwan. While supporting a one China policy, New Zealand still maintains economic and cultural ties with Taiwan, an important trade and economic partner.

Trade Relations Growing Stronger

¶13. (SBU) FTA negotiations were launched in November 2004 and concluded in April 2008 after 15 rounds of discussions. The FTA entered into force on 1 October 2008. New Zealand is the first OECD country to conclude an FTA with China. Over time the FTA will result in the elimination of tariffs on 96 percent of New Zealand exports to China and is projected to lift New Zealand's export revenue from trade with China by between NZD 225-350 million (USD 162-252 million) per year. The FTA built upon the bilateral economic relationship established by New Zealand's Trade and Economic Cooperation Framework, signed in May 2004 by China's Minister of Commerce Bo Xilai and New Zealand's Minister for Trade Negotiations Jim Sutton. In this Framework, New Zealand recognized China as "having established a market economy system." The NZ-China FTA is a comprehensive agreement covering trade in goods and services as well as investment. A Most Favored Nation clause

further ensures that any provisions extended by either New Zealand or China to third parties in future trade agreements will automatically apply to each other. New Zealand and China also entered into binding agreements on labor and environment, aimed at encouraging dialogue and co-operation in these areas. More details on the FTA and its outcomes can be found at www.chinafta.govt.nz.

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¶14. (SBU) China is New Zealand's third-largest trading partner. According to New Zealand statistics, two-way merchandise trade grew to NZD 9.7 billion (USD 7 billion) in the year to April 2009. Exports to China, valued at NZD 3.08 billion (USD 2.2 billion), increased by over 35 percent in the last year, while imports from China increased by 12 percent. China is New Zealand's fourth largest export market, after Australia, the US and Japan. China is New Zealand's second largest source of imports, after Australia. These statistics do not take account New Zealand exports to China through Hong Kong (USD 527 million). Up to one third of exports to Hong Kong are destined for the Mainland. New Zealand exports also end up in China via Singapore and other Southeast Asian countries. New Zealand's exports to China are dominated by agricultural products. Dairy, wool and oils and fats are the largest agricultural exports. New Zealand's exports to China have diversified, however, with forestry (now second only to dairy), seafood, machinery, aluminum, and high technology products (especially telecommunications products) featuring in New Zealand's non-agricultural exports to China. New Zealand's imports from China include electrical machinery and equipment, textiles, clothing and footwear, toys, and a wide range of light consumer goods.

Chinese Visitors to New Zealand on the Rise

¶15. (SBU) New Zealand's exports are also diversifying in the services sector; education and tourism are New Zealand major services exports to China. Besides the large number of Chinese students that come to New Zealand visitor (business and tourist) numbers from China have grown by a factor of six since New Zealand was granted Approved Destination Status (ADS) by China in 1999. China has now overtaken South Korea to become New Zealand's fifth-largest source of visitors (112,000 in the past year). Although there has been a recent down turn following the global economic crisis, New Zealand estimates that Chinese visitor number will reach 200,000 in the near future, which would make China its third-largest visitor market. New Zealand estimates that Chinese visitors make an economic contribution in excess of NZD 300 million (USD 216 million) each year. China's investments in New Zealand totaled close to NZD 808 million (USD 582 million by the end of ¶2008.

Bilateral Investment Increasing - But Not as Quickly as Trade

¶16. (SBU) Most Chinese investment has been in the forestry sector. There is also significant investment in manufacturing and commercial construction. Sectors such as property, hotels and restaurants, meat processing, electronics, fish farming and tanning have all attracted the interest of smaller Chinese investors. New Zealand companies, including ANZ, Fonterra, Richina Pacific, NDA Engineering, Hayes International and PAN PAC have major holdings in China. There are also a number of other companies closely associated with New Zealand with strategic operations or investments in China: Beca Carter, Biovittoria, TL Jones Microscan, and University of Waikato in Shanghai/East China, Air New Zealand

Engineering, Intuto, Natural History New Zealand, Western Institute of Technology Taranaki, and Wools of New Zealand in Beijing/North

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China. These companies see investment in China as important to secure a long-term market for New Zealand products and to assist in the penetration of the enormous consumer market developing in China. Another company, Ice Breaker, has been able to use China as a global manufacturing and distribution base for its New Zealand designed and marketed merino wool clothing. The New Zealand China Trade Association is the lead business advocacy group in New Zealand that focuses on commercial linkages between the two countries.

New Zealand Official Aid Drawn Down

117. (SBU) Following a 2005 review its China program, the New Zealand Agency for International Development (NZAID) determined that China would no longer be classified a core bilateral aid partner. This decision reflected both China's significant economic development and NZAID's increased focus on New Zealand's Pacific neighbors. However, smaller poverty alleviation activities, amounting to NZD 500,000 (USD 360,000) per year, continue to be carried out under the Development Project Fund in seven Western provinces and autonomous regions (Tibet, Sichuan, Guizhou, Gansu, Yunnan, Guangxi and Xinjiang). Many of these projects assist ethnic minority communities or women. In addition, there is a small grant program of NZD 80,000 per year (USD 57,600) administered by the New Zealand Embassy in Beijing.

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